Transforming
Accounts Receivable Processes
to Speed the Revenue Cycle

An IOFM white paper

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ABOUT THE ACCOUNTS RECEIVABLE NETWORK

The AR Network (TARN) is the community for accounts receivable, order-to-cash and financial shared services practitioners. The AR Network supports its members' success through the sharing of best practices, tools, expertise and peer-to-peer engagement. Members of The AR Network have access to critical information, technological solutions, and management strategies that helps them optimize receivables processes, maximize ROI and evaluate and implement the latest technologies. Learn more at www.theaccountsreceivablenetwork.com.

Transforming Accounts Receivable Processes to Speed the Revenue Cycle

Efficient and timely receivables processing is vital to the health of an organization.

Poor receivables processes impact credit decisions, corporate borrowing, liquidity management, reporting of corporate sales, and commissions to sales staff. Moreover, ineffective receivables processes make it difficult to know the status of an organization's current financial position.

Unfortunately, 60 percent of senior receivables and treasury managers surveyed by financial services research firm Aite Group are less than fully satisfied with their companies' receivables and cash application processes. The culprit is the high percentage of paper checks and remittance documents accounts receivable (AR) organizations receive, resulting in expensive processes, posting delays, errors, customer disputes and a lack of cash flow visibility.

Leveraging AR management solutions that combine intelligent data capture and content management solves these challenges. A growing number of organizations are using end-to-end AR management solutions to accelerate receivables processes, reduce days sales outstanding (DSO), and improve cash flow visibility and process management.

This white paper details the benefits of automating receivables management processes end-to-end.

The Problem with Payments and Remittances

While electronic payments and remittances are seen as more efficient and less costly than their paper-based counterparts, the adoption of electronic payments and remittances has been slow.

Sixty-seven percent of businesses receive payments "mainly" as checks, according to a 2012 study by the Remittance Coalition, a group of associations, standards organizations, businesses, banks and others focused on promoting the use of electronic payments and straight-through processing (STP).

Similarly, 65 percent of businesses disburse payments mainly as paper checks, the Remittance Coalition's research found. The percentage of payments made by paper check decreases with the size of company. Of those that disburse *all* of their payments by paper check, 28 percent are small businesses, 13 percent are midsize companies and 7 percent are large enterprises.

Convincing trading partners to use electronic payments and remittances has long been a challenge in eliminating manual receivables processes. But an underlying problem is the lack of a standard format for remittance data and the difficulty integrating receivables data with back-office systems.

One-third of businesses (33 percent) say the inability of customers and suppliers to apply remittance information is their top barrier to electronic payments and remittance adoption, according to the Remittance Coalition's study. Forty-four percent of businesses point to the difficulty integrating back-office systems with electronic payments and remittances as their biggest hurdle to adoption.

Complicating matters is that 43 percent of all remittance details arrive via a channel (e.g. e-mail, unstructured or free-form document, fax or phone) that requires key data entry or some other manual process. When you consider that corporate America generates 15.5 billion remittances each month (according to Aite Group), the amount of keying and manual handling for remittances is staggering.

With many businesses still handling paper remittances and checks, it's no surprise there are significant inefficiencies in the process. Businesses surveyed by the Remittance Coalition note a number of other challenges resulting from the lack of remittance standards and the inability to integrate information into back-end systems:

- Missing data elements
- Remittance files arriving in a format that cannot be processed
- The amount of time and expense required for staff to key data into an accounting system
- Inability to match receivables automatically
- Errors resulting from manual processing
- Delays in collecting funds

Even worse, the challenges described above all exacerbate the level of revenue "leakage" in the order-to-cash cycle caused by late payments, short payments, missed early payment discounts, disagreements about tax rates, contract disputes, and unrecoverable debts, according to research from the Association for Information and Image Management (AIIM).

A 2014 study by AIIM on automating accounts payable and accounts receivable. payments leakage—a significant amount of lost income when compared to the net profits at most companies, AIIM's study concluded.

End-to-End Receivables Management

Given the importance of receivables management to the health of a business, it's no surprise that more organizations plan to automate their remittance and payments processes.

A whopping 88 percent of organizations surveyed by the Remittance Coalition in 2012 reported a high (51 percent) or moderate (37 percent) level of interest in automating the exchange and reconciliation of remittances. Ninety-two percent of organizations had a high (47 percent) or moderate (45 percent) level of interest in using more electronic payments, the Remittance Coalition survey found.

What's more, 12 percent of organizations surveyed by AIIM in 2014 indicated they have plans to implement an AR workflow automation or payment management system by 2016.

But organizations that take a piecemeal approach to AR automation will likely be left wanting. Standalone solutions won't solve the heavy keying requirements, information gaps and lack of visibility that plague AR operations today.

The better approach is for organizations to address accounts receivable processing inefficiencies using end-to-end solutions that combine data capture and enterprise content management capabilities.

An automated receivables management solution includes the following components:

- **Capture payment data directly from remittances and checks.** As payments arrive, end-to-end receivables management solutions ingest the files and automatically identify the type of document and the critical data it contains. Information is then electronically extracted.

- **Verify extracted information against existing customer data.** Receivables management solutions automatically reconcile payments to outstanding invoices and capture remittance line items and balance totals to the accompanying check amount. This functionality also extends to lockbox providers, allowing them to instantly capture payment data and route the relevant information directly to the client organization.

- **Distribute information and documents to relevant systems and staff.** Once receivables information is captured and verified, receivables management solutions update back-end systems and route documents to staff. The solutions update any enterprise resource planning (ERP) or accounting system with verified information, ensuring the data that credit managers and other employees interact with is correct.

- **Manage documentation alongside information.** Receivables management solutions centralize all relevant documents and allow users to access documents directly from their accounting systems and mobile devices.

- **Track payments and processes.** Businesses can easily track open invoices, gain visibility into processes and view past payments to gain insight into payment behavior.

- **Deposit payments faster.** Receivables management solutions create an image cash letter (ICL) for electronic bank deposit, eliminating physical trips to the bank.

By automating receivables processes, organizations can achieve the following benefits:

- Faster receivables processing

- Reduced DSO

- Improved visibility and process management

Faster Receivables Processing

The considerable time organizations spend manually processing payments, reconciling transactions, and resolving customer disputes can result in delayed deposits and limited cash flow visibility.

An end-to-end receivables management solution speeds receivables processing in three ways:

1. **Accelerated capture of receivables data.** Forty-two percent of organizations surveyed by AIIM cite "reduced time per collection" as the biggest benefit of AR automation solutions. An end-to-end receivables management solution accomplishes this by quickly capturing all paper and electronic documents and automating the extraction of data from remittances and accompanying checks. Additionally, an end-to-end receivables management solution ensures accurate payment data by automatically balancing line items, validating extracted data against existing databases to identify unauthorized discounts, reconciling remittances against open invoices, and balancing remittance totals to accompanying checks.

2. **Streamlined distribution of receivables information.** In a manual, paper-based receivables environment, the staff has limited access to necessary documentation to resolve exceptions and disputes. Receivables management solutions automate the indexing of images of remittances and checks to make them instantly accessible by authorized individuals. Additionally, the solutions automate the routing of information using content management capabilities, verify information to ensure the staff sees accurate information, and update back-end systems with payment information. Any exceptions are automatically routed to the appropriate personnel for fast resolution.

3. **Faster cash application and cash deposit.** A lack of automation is the major cause of receivables inefficiencies. Half of the organizations surveyed by AIIM admit they do not have an automated receivables system. The Remittance Coalition reports that 54 percent of organizations rely on Microsoft Excel spreadsheets for their receivables management. A receivables management solution speeds cash application and deposit by applying accurate remittance data more quickly, creating image cash letters for electronic deposit through Check 21, and automating the association of remittances to open invoices.

Reduced DSO

Look no further than sky-high DSO for evidence of the widespread inefficiencies in receivables.

Almost 80 percent of organizations require payment on credit sales within 30 days (or net-30). However, average domestic DSO stands at 50 days, according to research by CEB TowerGroup, which studies trends in financial services.

It's no wonder that 54 percent of finance executives cite reducing DSO as their top order-to-cash objective, according to the Association for Financial Professionals and CEB TowerGroup.

Without question, automation has a positive impact on an organization's DSO. Nearly one-quarter of respondents to a study conducted by AIIM in 2014 cited "reduced DSO" as the biggest benefit of receivables management systems. Twenty-four percent of organizations without such a system report a DSO of 40 days or more, the research shows. Conversely, only 8 percent of organizations that have an automated receivables system report a DSO of 40 days or more.

Automating receivables processing enabled Bush Brothers & Company of Knoxville, Tenn., to decrease its DSO by two days, representing a savings of $200,000 annually. Bush Brothers' receivables system automatically associates open orders with receivables data that arrives via electronic data interchange, is uploaded via a process of computer output to laser disc, or is scanned from paper. The system automatically displays each order as well as the associated bill of lading and packing slip to staff processing orders.

An automated receivables management solution enabled Berner Foods Inc., headquartered in Dakota, Ill., to reduce its DSO from 38 days to 32 days, netting $1.5 million in cash flow.

Here are three ways that end-to-end receivables management solutions reduce DSO:

1. **Fewer disputes.** Accounts receivable management is heavily reliant on the supporting documentation that accompanies an original order or contract. Associated contract or order documents may include proof-of-delivery documents, service-level agreement (SLA) reports, rejection claims, help-desk notes or sales correspondence. An end-to-end receivables management solution enables organizations to significantly reduce disputes by automatically collating related documents, attaching related documents to customer e-mails, posting related documents to a web portal, providing external users with electronic access to documents, and automatically notifying customers of the availability of related documents. Not surprisingly, 20 percent of respondents to AIIM's 2014 survey cited "better containment of customer disputes" as the biggest benefit of receivables management systems.

2. **Faster dispute resolution.** Accessing supporting documentation or "case notes" is critical to resolving disputes. But 65 percent of organizations surveyed by AIIM in 2014 admit their accounts receivable staff may struggle to find the information they need in a timely and complete manner. An end-to-end receivables solution speeds dispute resolution by centralizing related documents and ensuring that data is up-to-date and accurate. End-to-end systems also automate the routing of disputed invoices and related documents to the correct personnel and facilitate collaboration across departments, such as sales, shipping and billing. Bush Brothers' automated receivables solution provides staff with instant access to the information to resolve disputes. Staff members previously had to call the company's distribution warehouse and wait a week or more for necessary documents to be found and delivered.

3. **Enhanced customer service**. An end-to-end receivables management solution improves overall customer service by providing internal users with access to posted invoices and processed payments and remittances, as well as access to all related documents from within an ERP system. End-to-end receivables systems also minimize research into duplicate payments by providing instant access to archived images and data.

Improved Visibility and Process Management

Cash flow analysis and liquidity management are the top priorities of finance executives, according to a 2013 Aberdeen Group study. And for good reason: Limited cash flow visibility impacts financial decision-making, potentially resulting in missed opportunities and costly corporate borrowing.

End-to-end receivables solutions improve financial and operational visibility in three ways:

1. **Increased cash flow visibility.** Twenty-five percent of respondents to the 2014 AIIM survey cited "sharper cash-flow predictions" as the primary benefit of receivables management solutions. With an end-to-end solution, the information organizations need for accurate cash flow projections is all in one place and quickly accessible from a computer. What's more, end-to-end receivables management solutions enable users to view up-to-date and accurate customer balances for a clearer picture of creditworthiness.

2. **Instant status updates.** End-to-end receivables management solutions provide instant insight into the status of an organization's cash balances, customer credit balances and overall receivables processes. Among the insights these solutions provide:

   - Accounts receivable specialist workflow

   - Payments processed

   - Approver response times

   - Number of remittances and checks processed in a specific timeframe

   - Time spent on exceptions

   - History of the date and time an image cash letter is created

   - Payments included in each cash deposit

   - Remittances applied to customer open items

3. **Enhanced working capital management.** End-to-end receivables management solutions enable organizations to better manage the receivables aging process through open invoice tracking, quick access to individual open invoices that are overdue, and the ability to run reports to see how many open invoices are past due, and by how long.

Case Studies

Faster cash application, reduced DSO, and improved visibility and process management are benefits that would make any senior financial executive smile. Not surprisingly, a growing number of organizations across vertical markets are deploying end-to-end receivables management solutions.

Below are two examples of companies that are benefiting from end-to-end solutions:

Shaw Industries Group

With $4.8 billion in annual sales, flooring company Shaw Industries Group Inc. of Dalton, Ga., was becoming increasingly concerned about the time it took to manually process remittances, bills of lading and other receivables documents. The delays meant that staffers in other departments could not retrieve the documents required to keep operations running smoothly or to respond to customer inquiries.

That's when the company automated its AR processes with an end-to-end solution that combines data capture and enterprise content management (ECM) capabilities. The solution electronically captures data from images of receivables documents, automatically indexes and stores the documents in the ECM solution, and transfers the documents to Shaw's back-end systems without human intervention.

The system automatically matches more than 85 percent of Shaw's receivables documents.

The solution also has streamlined the flooring company's exceptions processes. For instance, one of Shaw's customers remits a 100-page document each week that includes payments for received flooring items, as well as a list of items that were damaged during shipping. Any damaged items must be input into Shaw's claims system with a copy of the original claim.

In its old receivables environment, processing these documents involved 10 separate touch points, four individual staff members, and multiple passes through a scanner – consuming up to five hours per week. Shaw's automated system has virtually eliminated the paper-based steps and reduced the time required for staff to process these 100-page documents to less than 10 minutes per week.

What's more, the automated receivables management solution automatically archives images of documents such as bills of lading. Employees have immediate access to archived documents and can easily search for them as they are responding to customer inquiries. Having the bills of lading readily accessible enables Shaw to substantiate deliveries and avoid the risk of paying out unmerited claims.

Leggett & Platt

Leggett & Platt Inc. is a Carthage, Mo.-based manufacturer with more than 19,000 employees and 140 manufacturing locations across 18 countries. Paper-based accounts receivable processes made it difficult for the global company to manage the more than $3.6 billion in checks it receives each year.

Leggett & Platt's mainframe application matched only 5 percent of its payments with customer account records, requiring employees to manually apply approximately 350,000 cash payments annually.

Leggett & Platt eliminated this manual processing by deploying an automated data capture solution. The solution electronically captures data from images of checks and remittances, validates the data and uses

database lookups to identify customer accounts and match the data with invoice information from the manufacturer's mainframe application. The solution automatically applies 74 percent of Leggett & Platt's payments, a nearly 70 percent increase over the manufacturer's manual process.

When checks cannot be validated automatically, the solution flags them for staff review. The solution provides employees with images of associated remittances and checks, making it easier to locate missing or incorrect data. As a result, Leggett & Platt's staff resolves exceptions 85 percent faster.

Additionally, the receivables solution is fully integrated with the manufacturer's PeopleSoft system and mainframe application, significantly speeding the posting of receivables information. Processing receivables electronically also has reduced the manufacturer's expenses for paper and printer ink.

Overall, Leggett & Platt achieved payback on the solution in less than a year.

The Bottom Line

Manual AR processes take too long, cost too much and result in too many customer complaints and disputes. It's no wonder that nearly two-thirds of businesses are dissatisfied with their receivables and payments processes. The inefficient capture and management of remittance data is the root of the problem. With paper checks and remittances showing surprising staying power, and no standards for remittance data on the horizon, businesses must find a better approach to managing their checks and remittance documents.

The solution is to automate receivables processes with an end-to-end platform that combines data capture and content management. These solutions enable businesses to accelerate cash application, reduce DSO, and improve visibility and process management. Sticking with manual processes will put businesses at a significant competitive disadvantage to the growing number of companies that have deployed these end-to-end solutions.

ABOUT ONBASE BY HYLAND

By solving business needs that rely on documents, content and people, OnBase helps organizations run better, smarter and faster. OnBase combines deep document imaging, workflow and business process management functionality with features purpose-built and delivered by people with proven industry expertise in financial services, government, healthcare, higher education, insurance, manufacturing, retail and wholesale distribution markets.

OnBase maximizes the benefits of fast, efficient and precise AP and AR automation. Regardless of how documents are received – via fax, mail, email, EDI – OnBase captures and validates the relevant data and then delivers it to the appropriate individuals for review, approval and coding, and seamlessly updates your ERP or accounting system.

With OnBase, users quickly access invoices, remittances and supporting content, as well as make decisions, from the applications and devices that are most convenient for them. For example, employees can quickly retrieve invoices, goods receipts, check images, vendor contracts and even historical correspondence directly from their line-of-business applications, including ERPs like SAP, Oracle and Lawson.

OnBase also allows users to access AR documents directly from mobile platforms like Apple, Android and BlackBerry devices, letting them quickly respond to requests and inquiries from anywhere at any time. With integrations for phones and tablets, OnBase presents information to users within their familiar work environment, allowing them to make better decisions, faster.

And by automating manual processes, OnBase increases transparency, providing users with audit trails, reports and dashboards that give insight into every stage of the invoice approval or payment application process. In addition, OnBase identifies missing documents and automates document retention, helping organizations meet compliance standards and regulations. OnBase also helps users manage auditing processes quickly and easily, granting auditors secure online access to the documents they need, significantly reducing the time it takes to prepare for an audit.

Accelerate invoice and payment processing by adding OnBase to your AP and AR departments. OnBase promotes faster processing, increases transparency and reduces costs associated with paper. And because OnBase is both affordable and easy to configure, it's a financially sustainable solution with a return on investment that can be realized almost immediately.

To learn more about OnBase by Hyland for accounting and finance, visit OnBase.com/AF.